

Budget 2011 Highlights

The Minister for Finance has announced details of Budget 2011, the first part of the National Recovery Plan 2011 - 2014. The Plan has introduced proposals for sweeping changes of the tax system, cuts in social welfare and restricted pension tax-relief provisions.

Budget 2011 has expectedly delivered a €6 billion adjustment to the public finances through a variety of spending reduction and increased taxation measures, including:

Income Tax/PRSI

- Standard and higher rates of income tax remain at 20% and 41%.
- A new Universal Social Contribution to replace the Health Levy and the Income Levy. USC rate graduates to a resultant 7% for income in excess of €16,016.
- Employee PRSI contribution ceiling is removed.
- Income Tax bands and Tax credits are reduced by 10% from 1 January 2011.
- PRSI and Health Levy relief on employee pension contributions is to be removed in 2011.
- DIRT up 2% to 27% on ordinary deposit accounts.
- Tax exemption for patent royalties and approved share option schemes has been abolished effective 24 November 2010.
- Artist's exemption from Income Tax is to be reduced to earnings of €40,000.
- Legacy property-based incentive reliefs are to be abolished over the period 2011-2014.

Measures from 1 January 2011 include the restriction of Section 23 and other capital

allowance offsets to only rental from those specific properties.

- Tax-free pension lump sums and *ex-gratia* termination payments in excess of €200,000 will be taxed at marginal rate.
- The annual earnings cap for pension contributions is to be reduced from €150,000 to €115,000.

Duties/Levies

- Various Residential Stamp Duty property reliefs and exemptions are abolished from 8th December 2010.
- 1% Stamp Duty rate on residential property transfers for values up to €1m and 2% applying the amounts over the €1m threshold.
- Excise Duty up 4 cent/litre on petrol and 2 cent/litre on auto-diesel.
- Duty of 1% introduced for on-line/offshore betting.

Business Tax

- Corporation Tax Rate remains at 12.5%.
- Relevant Contracts Tax rate of 35% to be replaced with a two-rate system of withholding tax at 20% and 35%.
- Corporation tax 3 year exemption for start-up companies is extended to companies commencing to trade in 2011. The relief is now linked to the amount of Employers' PRSI paid in the accounting period
- An Employment and Investment Incentive is to replace the current BES from 2011 onwards. This will increase the maximum amount that can be raised by companies in a 12 month period to €2.5m and the lifetime amount that can be raised to €10m

- The following tax reliefs are to be abolished in 2011:
 - The investment allowance for machinery & plant and for exploration expenditure.
 - BIK exemption on employer provided childcare.
 - The accelerated allowance for capital expenditure on farm buildings for pollution control.

Capital Acquisitions Tax

- The current group tax-free thresholds are being reduced by 20%, effective for gifts/inheritances taken after midnight 7 December 2010.

Other Measures

- Tax relief at standard rate to max of €10,000 spend on energy improvements to homes.
- Reduction in air travel tax to €3 from March 2011.

- Maximum Pension Fund for tax purposes is reduced to €2.3m from 7 December 2010.
- Annual imputed distribution to Approved Retirement Funds is increased to 5%.
- Old Age State Pension to remain unaffected.
- All other Social Welfare payments decreased by €8 per week.
- Child Benefit decreased by €10 for first and second children and by a further €10 for a third child.
- Introduction of Higher Education student contribution of €2,000.
- Cap on Public Sector salaries at €250,000 to be introduced.
- Salary reductions announced for An Taoiseach and Government Ministers.
- 4% reduction in Public Sector pensions.

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